

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 01304 102215Z

62

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 INR-07 NSAE-00 PA-02

USIA-15 PRS-01 SP-02 FEA-01 ERDA-07 AID-05 CEA-01

CIEP-02 COME-00 EB-07 FPC-01 H-02 INT-05 L-02 NSC-05

OMB-01 PM-03 SAM-01 OES-05 SS-15 STR-04 TRSE-00

FRB-01 /108 W

----- 080714

P 102040Z APR 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 6110

INFO AMCONSUL VANCOUVER

UNCLAS OTTAWA 1304

POUCHED TO ALL OTHER CONSULATES IN CANADA

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: FIRST MINISTERS' ENERGY CONFERENCE MACDONALD

STATEMENT ON NATURAL GAS AND OIL

1. FOLLOWING IS EXCERPT FROM LENGTHY APRIL 9 STATEMENT BY ENERGY, MINES AND RESOURCES MINISTER MACDONALD AT FIRST MINISTERS' CONFERENCE ON NATURAL GAS SUPPLIES AND PRICING AND OIL EXPORTS WHICH WILL BE OF PARTICULAR INTEREST TO DEPARTMENT AND OTHER AGENCIES:

BEGIN QUOTE

PERMIT ME TO TURN FOR A FEW MOMENTS TO ISSUES OF NATURAL GAS. THE NATIONAL ENERGY BOARD HAS RECENTLY COMPLETED ITS HEARINGS AND UNTIL WE HAVE ITS DEFINITIVE VIEW IT IS NOT POSSIBLE TO SPEAK PRECISELY. HOWEVER, THERE WAS AMPLE EVIDENCE GIVEN THE BOARD THAT DELIVERABILITY FROM CONVENTIONAL RESERVES IS DECLINING. IN OUR VIEW, THE PROBLEM OF SUPPLY HAS ARISEN IN

UNCLASSIFIED

PAGE 02 OTTAWA 01304 102215Z

PART FROM A SIGNIFICANT UNDERPRICING OF NATURAL GAS

RELATIVELY TO CRUDE OIL WHICH HAS ENCOURAGED ITS UNWISE USE AND HAS NOT PROVIDED SUFFICIENT INCENTIVES TO ENCOURAGE NEW SUPPLIES. AS I HAVE STATED ON SEVERAL OCCASIONS, IT IS FEDERAL GOVERNMENT POLICY TO SEE THE PRICE OF NATURAL GAS AT THE WELL-HEAD RISE OVER TIME TO THE POINT WHERE NATURAL GAS AND CRUDE OIL IN THEIR MAJOR CENTRAL CANADIAN MARKETS ARE EQUIVALENTLY PRICED. I BELIEVE THAT THIS PROCESS OF PRICE CORRECTION SHOULD BE COMPLETED WITHIN THE NEXT FEW YEARS. ONCE AGAIN, I AM AMXIOUS, HOWEVER, THAT THE ADJUSTMENT BE PHASED OVER THE INTERVENING YEARS IN A WAY WHICH RECONCILES THE NEED FOR CONSUMERS TO HAVE A PERIOD TO ADJUST WITH THE NEED TO PROVIDE THE INCENTIVES TO BOTH EXPAND CONVENTIONAL PRODUCTION AS WELL AS ENCOURAGE FRONTIER DEVELOPMENTS. I WOULD SEEK THE AGREEMENT OF ALL PROVINCES AT THIS CONFERENCE ATHAT THE PRINCIPLES OF PHASING NATURAL GAS PRICES IN THIS MANNER BE ACCEPTED, AND THAT THIS PHASING BEGIN LATER THIS YEAR. I WOULD FURTHER PROPOSE THAT WE COMMIT OURSELVES TO A PHASING SCHEDULE WHICH WOULD ACHIEVE CRUDE OIL PARITY WITHIN A NUMBER OF YEARS. I CANNOT EMPHASIZE TOO STRONGLY TO THIS CONFERENCE THAT WE FOCUS ON THIS QUESTION, FOR AS I AM SURE YOU ARE ALL AWARE THERE IS ALREADY SET IN MOTION A PROCESS WHICH WILL INEVITABLY LEAD TO A SUBSTANTIAL INCREASE IN NATURAL GAS PRICES. I SPEAK OF THE ARBITRATION SYSTEM WHICH HAS BEEN ESTABLISHED IN THE PROVINCE OF ALBERTA. UNELSS WE CAN AT THIS CONFERENCE REACH THROUGH COOPERATION AN AGREEMENT TO SET THE LEVEL OF NATURAL GAS PRICES, THE ARBITRATION SYSTEM WILL DETERMINE WHAT THAT PRICE WILL BE, AND THE POSSIBILITY EXISTS THAT THE PRICE SET WILL BE AT SUCH A HIGH LEVEL AS TO CAUSE SERIOUS ADJUSTMENT PROBLEMS TO THE CONSUMING PROVINCES: SASKATCHEWAN, MANITOBA, ONTARIO AND QUEBEC. THEREFORE, I BELIEVE IT IS IMPERATIVE THAT WE PURSUE DELIBERATIONS WITH THE PROVINCE OF ALBERTA ON FAIR AND EQUITABLE MEANS OF ENCOURAGING FURTHER SUPPLY FROM THAT PROVINCE WHILE RECOGNIZING ALBERTA'S CONCERN FOR ITS OWN EXISTING AND FUTURE REQUIREMENTS. IT WILL ALSO BE NECESSARY TO CONFER WITH SASKATCHEWAN, MANITOBA, ONTARIO AND QUEBEC

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 01304 102215Z

ON THE MOST EQUITABLE MEANS OF ALLOCATING PROSPECTIVELY SHORT SUPPLIES AMONGST THEM. THESE ARE DIFFICULT PROBLEMS, BUT I HAVE NO DOUBT THAT WITH GOODWILL WE CAN COME TO MUTUALLY AGREEABLE SOLUTIONS. I WOULD PROPOSE TO SEEK THESE DELIBERATIONS IN THE MONTHS IMMEDIATELY FOLLOWING THIS CONFERENCE.

IT WILL BE NECESSARY IN THE NEXT TWO DAYS TO

DISCUSS THE ISSUE OF EXPORT PRICING OF NATURAL GAS. WHEN I ANNOUNCED THE INCREASE TO ONE DOLLAR PER THOUSAND CUBIC FEET LAST FALL, I INDICATED THAT FURTHER INCREASES WOULD BE FORTHCOMING. I NOW BELIEVE THAT IT IS APPROPRIATE TO MAKE A FURTHER ADJUSTMENT IN THAT PRICE. REVERTING FOR A MOMENT TO ANOTHER EXPORT ISSUE, I INDICATED, FOLLOWING THE FEDERAL GOVERNMENT'S ANNOUNCEMENT OF A LIMIT OF 800,000 BARRELS PER DAY OF CRUDE OIL AS OF JANUARY 1ST THIS YEAR, THAT A FURTHER REDUCTION MIGHT BE INSTITUTED IN 1975 FOLLOWING CONSULTATION WITH THE PROVINCES. IN FACT, SINCE JANUARY 1ST, THE LEVEL OF OUR EXPORTS HAS DECLINED BELOW 800,000 BARRELS PER DAY, AND INDEED IN THE MONTH OF APRIL IT WILL BE BELOW 650,000 BARRELS PER DAY. THE MARKET -- SPECIFICALLY A NUMBER OF OUR EXPORT CUSTOMERS -- HAS BROUGHT ABOUT THE OBJECTIVE WHICH I SET UP IN MY ANNOUNCEMENT.

END QUOTE.

2. IN RESPONSE TO CLOSE QUESTIONING BY B.C. PREMIER BARRETT, MACDONALD STATED THAT HE WOULD BE SUBMITTING PROPOSAL ON PHASED INCREASE IN PRICE OF NATURAL GAS EXPORTS TO U.S. TO CABINET IN NEXT SEVERAL WEEKS AND THAT FIRST INCREASE WOULD PROBABLY BE EFFECTIVE ON AUGUST 1 IN ORDER TO GIVE U.S. REGULATORY AGENCIES SUFFICIENT TIME TO PREPARE FOR THE INCREASE. BARRETT ALSO ASKED MACDONALD WHAT THE TIME DISTINCTION IS BETWEEN EXPORT AND DOMESTIC PHASING-IN OF GAS PRICE INCREASES. MACDONALD REPLIED THAT HE CONCURRED IN A SHORTER PHASING FOR EXPORT PRICES THAN THE THREE TO FOUR YEARS CONTEMPLATED FOR DOMESTIC PRICES. WHILE THE U.S. CANNOT EXPECT "NATIONAL" TREATMENT, MACDONALD SAID, THE GOC WOULD NOT WANT TO DO TO THE U.S. WHAT UNCLASSIFIED

UNCLASSIFIED

PAGE 04 OTTAWA 01304 102215Z

CANADA WOULD NOT LIKE DONE TO IT BY THE U.S. IRUSOME OTHER AREAS OF CROSS-BORDER ACTIVITY. BARRETT RESPONDED THAT B.C. WAS "COMPLETELY SATISFIED" WITH MINISTER MACDONALD'S STATEMENT (PARA 1) ON GAS PRICING. PORTER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXT, PETROLEUM, NATURAL GAS, MINISTERIAL MEETINGS, SPEECHES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA01304
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750125-0711
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750463/aaaacfpq.tel
Line Count: 159
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 27 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 JUN 2003 by SilvaL0>; APPROVED <21 JAN 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FIRST MINISTERS' ENERGY CONFERENCE MACDONALD STATEMENT ON NATURAL GAS AND OIL
TAGS: ENRG, CA, (MACDONALD, DONALD S), (TRUDEA, PIERRE-ELLIOT)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006